

To: **EDA President and Board**

From: **Ryan Schroeder, City Manager**
Jim Hartshorn, EDA Executive Director

Date: **February 10, 2020**

Expansion of Housing Rehab Programming

BACKGROUND INFORMATION:

Within the 2020 EDA budget is an allocation toward rehab programs of \$150,000. Intended is that we would continue commercial rehab but add to it an expansion of current housing rehab programming. The Public Safety Committee discussed this initiative at their meetings of October 22 and December 3, 2019. This was followed by a January 27 Council OCWS presentation by Jason Peterson of NeighborWorks. At that meeting, consensus was to continue to pursue a rehab program expansion.

Following Council direction, specifics of the rehab program initiative were discussed at the February 4, 2020 Public Safety Committee meeting. This Committee is endorsing proceeding with a program and is recommending it be focused as follows:

- The program be created as a 1-3 year PILOT program and that eligibility during the PILOT be limited to single family homesteaded properties located within that area of the community bounded by: Annapolis, Robert, Butler, and Waterloo. It is suggested impact can be greatest with a limited geographical focus and this area has previously been identified as an area with the greatest opportunity for impact. It should be noted, however, that if this geographic target does not generate the desired interest level, the limitation could be revisited.
- The program would further be targeted to households with incomes between 80% and 120% AMI and that there be no limits on current or future market value of the homesteaded property.
- Improvements eligible for financing be limited to code deficiencies, exterior improvements to the structure (siding, windows, doors, roofs), and system replacement (HVAC, electrical, plumbing) with a specific exclusion of aesthetic improvements (kitchens, baths, flooring, et al). The Committee recommended the minimum loan amount be set at \$5,000 with the maximum of \$15,000 during the PILOT. The other NeighborWorks programs have lower minimum thresholds (of \$2,000) but the Committee thought the administrative costs of smaller loans should be avoided. The other communities have larger maximum loans (\$25,000 to \$40,000) but, with limited resources, the Committee preferred to offer loans to more households over larger loan amounts.
- An interest rate in 2020 of 3.5% (a check of home equity loans reveals the current market minimum at about 3.79% APR with an 85% LTV and MHFA fix up loan fund is currently at 4.25%). The Committee did not discuss a specific loan term. In the Shoreview and Woodbury programs, the maximum loan is 15 years. In North St. Paul, the maximum loan is 20 years for loans greater than \$10,000 and 10 years for smaller loans. Anticipated is 15-year loan term maximums.

Sample \$15,000 Loans (City Admin fee of \$1,500 to NeighborWorks)

Interest Rate	Loan Term	Monthly Payment	Total Int. Paid
3.5%	15 year	\$107.23	\$4,301.83
3.5%	10 year	\$148.33	\$2,799.46
3.0%	15 year	\$103.59	\$3,645.70
3.0%	10 year	\$144.84	\$2,380.93

- The only origination or application fee to the borrower would be \$150 refundable if they do not gain loan approval. Standard underwriting guidelines (security, loan to value, et al) would apply.

Under the contract proposal, NeighborWorks would provide all administration of the program. Beyond capitalizing the loan fund, the EDA would contribute 10 percent of each initial loan back to NeighborWorks to pay for program administrative costs. With Board authorization, it is anticipated that marketing of this program could be available by April 1. It is intended that investments of funds be a revolving pool. Hence, as repayments of loans occur those funds be used to replenish capital within the loan fund.

Proposed is a contract through 12/31/20 but which automatically extends unless either party provides notice. Anticipated is that the EDA would capitalize the loan fund similarly in future years as supplemented by repayments from borrowers.

FISCAL IMPACT:

Up to \$49,500 at three loans per year at recommended maximum or \$82,500 at five loans. With these metrics, replacement of investment into the loan pool could range from about \$3900/year at three loans in 2020 up to about \$8900/year at five loans.

		Amount
Fund:		
Department:		
Account:		

STAFF RECOMMENDATION:

Consideration of housing program guidelines above and the proposed contract with NeighborWorks.